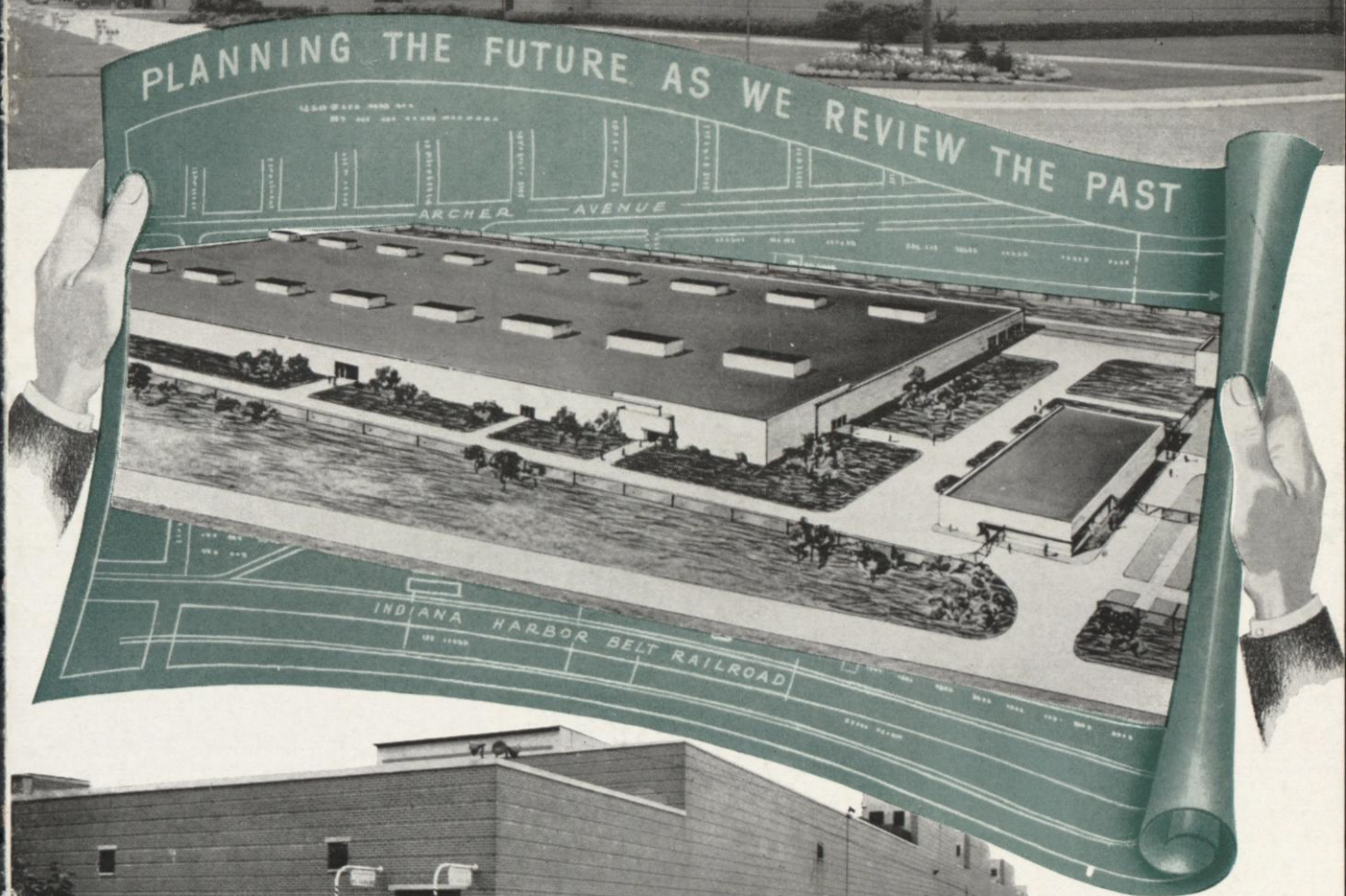


NATIONAL

TEA CO.

CLEVELAND PUBLIC LIBRARY
BUSINESS INFORMATION BUREAU
CORPORATION FILE



ANNUAL REPORT TO STOCKHOLDERS

1948

OFFICERS AND DIRECTORS

OF NATIONAL TEA CO.

Directors

JOHN F. CUNEO*

ARTHUR J. HANSEN

HAROLD G. CUTRIGHT

Resigned 9-27-48

HARLEY V. McNAMARA*

RAYMOND P. FISCHER

ROBERT V. RASMUSSEN

JOHN V. FARWELL III*

WILLIAM E. RUSSELL

ROBERT E. STRAUS

*Member of Executive Committee

Officers

HARLEY V. McNAMARA

President

ARTHUR J. HANSEN

Vice President

WILLIAM E. RUSSELL

Secretary-Treasurer

NORBERT L. CHAPLICKI

Vice President

CLARENCE E. BEARD

Assistant Treasurer

FRANK J. GRUMAN

Vice President

CHARLES WOODING

Assistant Secretary



Transfer Agents

The First National Bank
38 S. Dearborn Street
Chicago, Illinois

Registrars

Continental Illinois National
Bank and Trust Co.
231 S. LaSalle Street
Chicago, Illinois

The Chase National Bank
11 Broad Street
New York, N. Y.

The New York Trust Company
100 Broadway
New York, N. Y.



MANAGEMENT REPORT

for

1948

TO OUR SHAREHOLDERS:

We are very happy to report our fourth successive year of improved sales and profits under your new management, and we feel that we have further improved the position of the National Food Stores in the Middle West. The report of your Company and its subsidiaries for the year ending December 31, 1948, is presented herewith:

SALES

Sales for the year amounted to \$270,176,795 (establishing a new sales record for the sixth consecutive year), and compare with \$217,915,297 for 1947, an increase of 23.98%, again reflecting an increase in tonnage as well as dollars. The Company currently ranks sixth in sales volume among the food chains of the country.

PROFITS

The results of operations for the year show a profit of \$4,050,006 equivalent after preferred dividends to \$5.08 per share on 769,380 shares of outstanding common stock. This compares with a profit of \$3,597,154 in 1947 and \$5.45 per share on 641,150 shares of common stock outstanding. In continuation of its policy of serving its customers at the lowest possible price, the Company's margin of profit on sales was reduced to 1.50% in 1948, as compared with 1.65% for 1947.

DIVIDENDS

During the year 1948, dividends of \$1.875 per share were paid to common stockholders. An extra dividend of 50c per share was declared on November 29, 1948, payable on January 3, 1949. In addition to common dividends, preferred dividends in the amount of \$138,349.25 were paid or declared.

MERCHANDISE INVENTORIES

Our inventories have increased from \$17,556,572 on December 31, 1947, to \$18,156,725 on December 31, 1948. This increase is caused by higher prices of commodities and larger inventory necessary due to our increased volume of business. Our inventory turnover was the best we have ever had.



RESULTS AT A GLANCE

Results of Operations for the Calendar Years					
	1944	1945	1946	1947	1948
Sales.....	\$99,870,475	\$106,868,995	\$157,641,672	\$217,915,297	\$270,176,795
Net Profit before					
Federal Taxes.....	1,766,663	1,838,058	4,761,473	5,772,154	6,483,006
Federal Taxes.....	700,000	925,000	1,830,000	2,175,000	2,433,000
Net Profit after					
Federal Taxes.....	1,066,663	913,058	2,931,473	3,597,154	4,050,006
Earned					
Per Share Common..	1.59	1.33	4.51	5.45	5.08*
Percent of Sales..	1.07	.85	1.86	1.65	1.50
Dividends paid per					
share on Common..	.25	.85	.85	1.25	1.875
Common Shareholders					
Investment per Share	19.28	19.65	23.03	26.96	29.00*
Ratio of Current					
Assets to Current					
Liabilities.....	2.42	2.79	1.97	2.18	2.40
New management effective March 21, 1945.				*on 769,380 shares	

STORES

	1948	1947	1946	1945
Stores with meat markets.....	569	556	491	452
Conventional grocery stores.....	90	146	202	297
Total stores on December 31.....	659	702	693	749

Our acquisition, in September, 1947, of the Standard Grocery Co.—L. A. Jackson, Inc., of Indianapolis has proven very satisfactory during the past year and should improve in the future. In 1948 we continued our policy of elimination of the smaller stores and the opening of large, modern food marts.

REAL ESTATE

The policy of selling Company owned store properties was continued during the year, 20 properties being sold from which a \$20,299 profit was realized. On December 10 the Company purchased from the War Assets Administration the building formerly occupied during the war, by the Studebaker Corp., which consists of 801,000 square feet and 50 acres of property, for our new warehouse to serve our Chicago operations. (See front cover illustrations.)

It is expected that we will not take possession until the expiration of the Western Electric Company's lease of this building on December 14, 1950. This new warehouse will enable us to serve our Chicago stores more efficiently and at a lower cost of both warehousing and transportation.



FINANCIAL

In order to restore working capital and provide for further expansion, the Company issued to the holders of its common stock of record August 30, 1948, warrants entitling each shareholder to purchase at \$20.50 per share, one share of common for each five shares held. Under this arrangement 128,230 shares were issued, the net proceeds to the Company amounting to \$2,518,334.

The following is a brief summary of the changes in the working capital position of the Company during the four years 1945-1948 effected by the present management which was elected March 21, 1945.

Source of Funds:			
Net Profit			\$11,491,691
Capital Stock Sold			
Preferred Shares	\$1,737,214		
Common Shares	2,847,760	4,584,974	
Serial Notes Issued		1,175,652	
Disposition:			\$17,252,317
Excess of Capital Expenditures over Provision for Depreciation and Sales of Property	\$3,935,161		
Increase in Deferred Charges, etc.	770,430		
Mortgages Paid	230,167		
Dividends			
Preferred Shares	407,542		
Common Shares	3,496,146	8,839,446	
Increase in Net Current Assets			\$ 8,412,871

ORGANIZATION

There was no change in our top operating organization during the year, nor is any contemplated at the present time. We feel that our organization has done an outstanding job during the past year through good teamwork and not as individuals, and that with the additional experience acquired they will do a better job this year.

LABOR RELATIONS

Our employees shared in the prosperity of the Company with increased income. The wages of our employees increased from \$23,805,244 to \$28,490,649, a gain of 19.68% over the previous year. Your management again recognizes with grateful appreciation the important part played by our regular and part-time employees in the year's results—without their loyal, energetic and efficient cooperation, these outstanding results would not have been achieved. We sincerely hope that management can continue to merit this wholehearted cooperation.

Chicago, Illinois
February 28, 1949

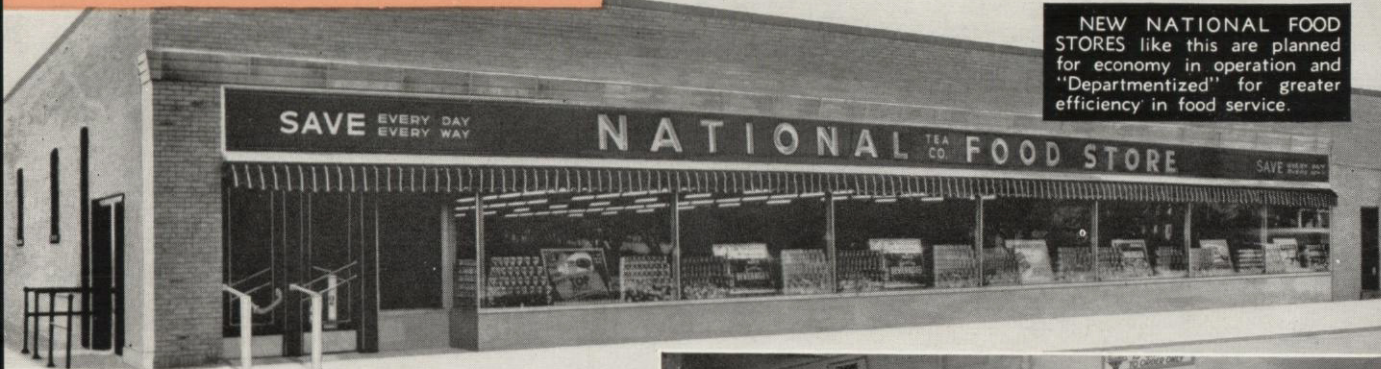
H. V. Mc Namara
PRESIDENT



NATIONAL

"Departmentized"

NEW NATIONAL FOOD STORES like this are planned for economy in operation and "Departmentized" for greater efficiency in food service.



OVEN FRESH "National Maid" BAKERY GOODS

SELF SERVICE BAKERY DEPARTMENTS provide a grand variety of thrifty "National Maid" fresh baked foods.



NATIONAL MAID BAKERY DEPARTMENTS in the larger National Food Stores feature a complete "over the counter" bakery service.



HOUSEHOLD SUPPLY DEPARTMENTS offer "Department Store Variety" with "Neighborhood Store Convenience."



HEALTH AND BEAUTY AID DEPARTMENTS contribute greatly to National's "One Stop Shopping Service."



THE BIG GROCERY DEPARTMENTS have made National's Stores famous as "The Place To Go For The Brands You Know."



THIS NEW COFFEE DEPARTMENT provides "Custom Ground" Coffee Service and relieves the Check Stand of dispensing Cigarettes, Candy Bars, etc., to speed up service in the larger National Stores.

"Departmentized"

FOR GREATER

to Merchandise"

FOOD STORES



SELF SERVICE MEAT DEPARTMENTS hold great promise for the future, and National is getting its experience with Self Service markets like these in all branches.



SELF SERVICE DELICATESSEN DEPARTMENTS provide pre-packaged luncheon meats with "finger tip" selection in National's modern refrigerated self serve cases.



MAGIC EYE DOORS provide the last word in effortless shopping, and are greatly appreciated by customers in the larger National Stores.



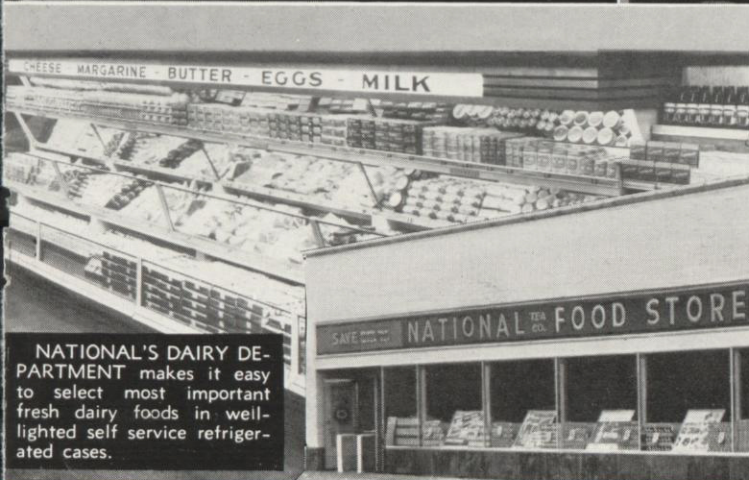
NATIONAL'S POULTRY DEPARTMENTS feature a wide selection of Frozen Poultry in Modern Self Service cases like the one above.



FISH AND SEA FOOD DEPARTMENTS present a great variety of fresh frosted "Delicacies from the Sea" in refrigerated cases like this.



THIS FRESH FRUIT AND VEGETABLE DEPARTMENT with its beautiful array of colors and attractive displays of garden foods is typical of National Food Stores.



NATIONAL'S DAIRY DEPARTMENT makes it easy to select most important fresh dairy foods in well-lighted self service refrigerated cases.



"ANOTHER NEW NATIONAL OPENS TODAY" is a welcome phrase to National Customers as more and more new stores like this one take their place in the communities National serves.

Economy AND Efficiency

NATIONAL TEA CO. CONSOLIDATED

DECEMBER 31,

A S S E T S	1948	1947
CURRENT ASSETS:		
Cash.....	\$ 6,429,409	\$ 5,361,555
Accounts receivable, less reserves of \$17,478 and \$36,695, respectively.....	910,399	864,817
Inventories of merchandise and supplies, at lower of cost or market	18,156,725	17,556,572
Total current assets.....	<u>\$25,496,533</u>	<u>\$23,782,944</u>
PREPAID RENTS, INSURANCE, ETC.....	<u>\$ 936,403</u>	<u>\$ 420,001</u>
MORTGAGE NOTES RECEIVABLE.....	<u>\$ 38,246</u>	<u>\$ 59,309</u>
PLANT AND EQUIPMENT, at cost less the remainder (\$307,207) of the net write-down of buildings charged to earned surplus in 1935:		
	Gross	Reserves
Land.....	\$ 990,358	\$ —
Buildings.....	2,860,387	1,454,797
Fixtures and equipment.....	14,171,150	6,419,866
	<u>\$18,021,895</u>	<u>\$7,874,663</u>
Leaseholds and improvements in process of amortization.....	184,126	190,409
Advance payment for purchase of plant (to be consummated in December, 1950, at which date the balance of \$3,200,000 becomes payable over ten years, or less at option of company) ..	800,000	—
	<u>\$11,131,358</u>	<u>\$ 8,997,509</u>
GOODWILL.....	<u>\$ —</u>	<u>\$ 1</u>
	<u>\$37,602,540</u>	<u>\$33,259,764</u>

AND SUBSIDIARIES BALANCE SHEET

1948 AND 1947

LIABILITIES	1948	1947
CURRENT LIABILITIES:		
Accounts payable.....	\$ 6,287,358	\$ 6,801,391
Accrued liabilities.....	1,798,061	1,797,491
Federal income taxes.....	2,500,621	2,195,999
Serial notes payable.....	—	100,000
Total current liabilities.....	<u>\$10,586,040</u>	<u>\$10,894,881</u>
SERIAL NOTES, due 1950 to 1960, interest rate 2% to 3%.....	\$ 1,200,000	\$ 1,300,000
RESERVE FOR SELF-INSURANCE.....	<u>\$ 200,406</u>	<u>\$ 164,263</u>
CAPITAL STOCK AND SURPLUS:		
Preferred shares, cumulative, par value \$50 (sinking fund deposit of \$383,566 required on April 1, 1949)—		
4¼% series, authorized and issued 28,400 and 32,300 shares, respectively.....	\$ 1,420,000	\$ 1,615,000
3.8% series, authorized and issued 37,500 and 40,000 shares, respectively.....	1,875,000	2,000,000
Common shares, par value \$10, authorized 800,000 shares, issued 788,230 and 660,000 shares, respectively.....	7,882,300	6,600,000
Paid-in surplus (increase represents excess of sales price over par value of 128,230 common shares, less \$110,381 of expenses in connection therewith).....	3,012,697	1,776,663
Earned surplus (of which \$5,174,496 is not restricted as to dividends at December 31, 1948).....	11,624,244	9,107,104
	<u>\$25,814,241</u>	<u>\$21,098,767</u>
Less—Approximate cost of 18,850 common shares held in treasury	198,147	198,147
	<u>\$25,616,094</u>	<u>\$20,900,620</u>
	<u><u>\$37,602,540</u></u>	<u><u>\$33,259,764</u></u>

NATIONAL TEA CO. AND SUBSIDIARIES

Statement of Consolidated Income

FOR THE YEAR ENDED DECEMBER 31, 1948 AND 1947

	1948	1947
SALES AND OTHER INCOME:		
Sales.....	\$270,176,795	\$217,915,297
Profit on disposal of fixed assets, etc.....	122,576	353,777
Total sales and other income.....	\$270,299,371	\$218,269,074
COSTS AND EXPENSES:		
Materials and services purchased from others.....	\$226,979,977	\$181,935,503
Wages and salaries.....	28,490,649	23,805,244
Rentals paid for leased properties.....	2,552,231	1,975,705
Provision for depreciation.....	1,009,103	753,611
Interest on indebtedness.....	41,550	54,810
Social security, State, local and miscellaneous taxes.....	4,742,855	3,972,047
Provision for Federal income taxes.....	2,433,000	2,175,000
Total costs and expenses.....	\$266,249,365	\$214,671,920
NET INCOME FOR THE YEAR.....	\$ 4,050,006	\$ 3,597,154

Statement of Consolidated Earned Surplus

FOR THE YEARS ENDED DECEMBER 31, 1948 AND 1947

	1948	1947
BALANCE AT BEGINNING OF YEAR.....	\$ 9,107,104	\$ 6,544,903
ADD—Net income.....	4,050,006	3,597,154
	\$ 13,157,110	\$ 10,142,057
DEDUCT:		
Dividends paid or declared—		
4¼% preferred shares.....	\$ 64,505	\$ 75,466
3.8% preferred shares.....	73,843	27,256
Common shares (\$2.00 and \$1.37½ per share, respectively) ..	1,394,518	879,148
Commissions and expenses in connection with sale of 3.8% preferred shares.....	—	53,083
	\$ 1,532,866	\$ 1,034,953
BALANCE AT END OF YEAR.....	\$ 11,624,244	\$ 9,107,104

AUDITORS' CERTIFICATE

ARTHUR ANDERSEN & CO.

120 SOUTH LASALLE STREET
CHICAGO 3

TO THE BOARD OF DIRECTORS,
NATIONAL TEA CO.:

We have examined the consolidated balance sheet of NATIONAL TEA CO. (an Illinois corporation) AND SUBSIDIARIES as of December 31, 1948 and the related statements of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We had previously made a similar examination for the year ended December 31, 1947.

In our opinion, the accompanying consolidated balance sheet and statements of income and surplus present fairly the financial position of National Tea Co. and subsidiaries as of December 31, 1948 and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

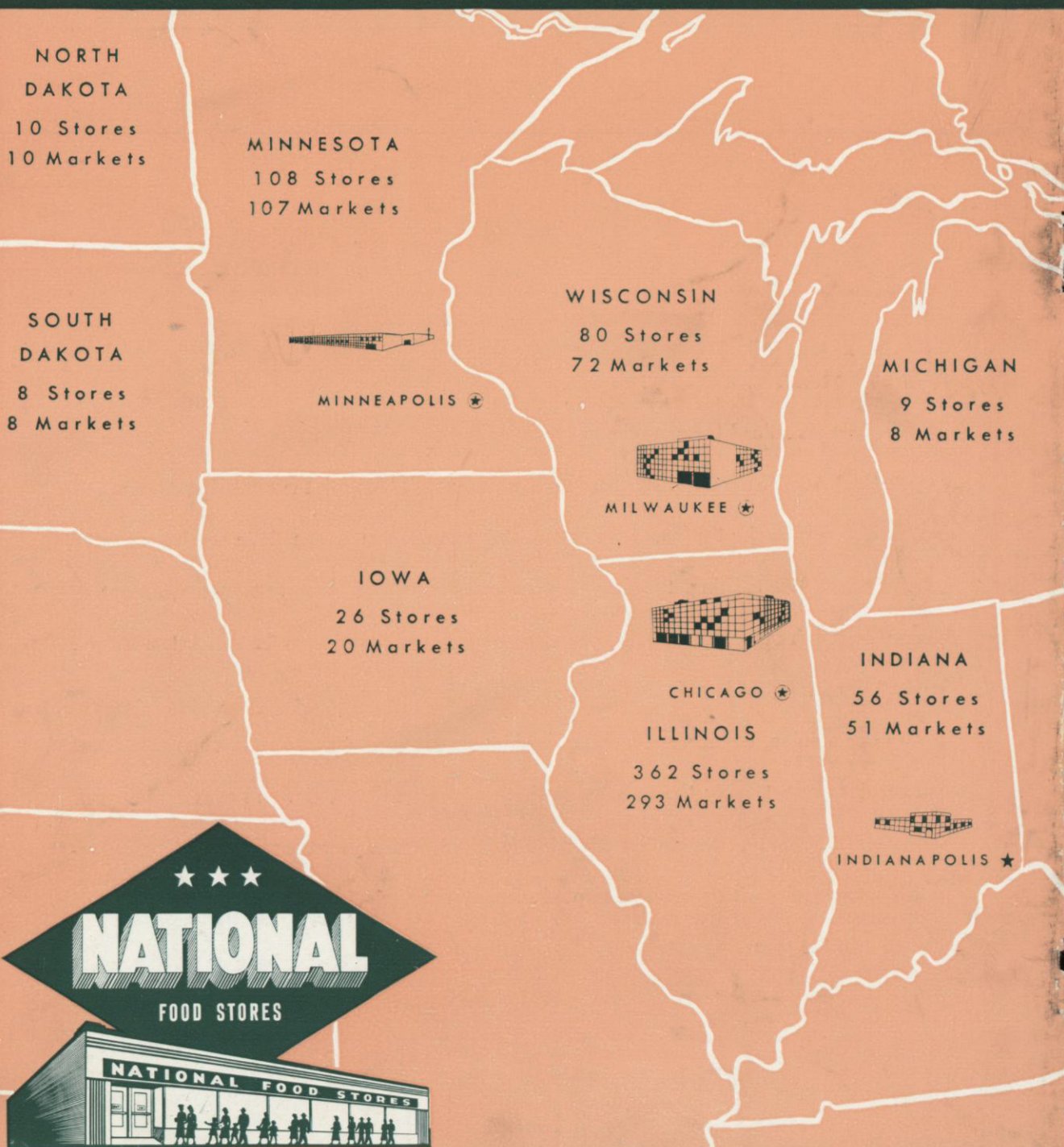
ARTHUR ANDERSEN & CO.

Chicago, Illinois.

February 11, 1949.

NATIONAL FOOD STORES

...SERVING THE GREAT MIDWEST...



NATIONAL TEA CO.

CHICAGO

INDIANAPOLIS

MILWAUKEE

MINNEAPOLIS

★ BRANCH WAREHOUSES WITH BAKERIES

★ BRANCH WAREHOUSE